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SUBJECT: DUSTR BHATIA IN TOKYO: SURVEYS THE RELATIONSHIP

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11. (SBU) Japan is a key partner for the United States in its overall trade policy, and both countries need to do more to deepen the relationship in coming months. That is how Deputy U.S. Trade Representative Karan Bhatia underscored the importance to the United States of Japan and the region during meetings in Tokyo March 20. He described the priority the United States attaches to establishing deeper regional economic integration, pointing to the FTA negotiations Washington has launched with Korea and Malaysia. He and his Japanese hosts at the Prime Minister's Office, and the Foreign, Trade, and Agriculture ministries, agreed to work hard to advance the bilateral partnership in coming months as Japan selects a new Prime Minister. Bhatia reminded all parties, however, it will be hard to proceed as long as Japan's market remains closed to U.S. beef. Bhatia underscored the urgency of reaching a successful conclusion of the Doha trade round, and called on Japan to cooperate on WTO cases Washington is considering filing against China. End summary.

Bilateral Partnership

12. (SBU) Notwithstanding the irritant that beef represents on overall U.S.-Japan bilateral relations (septel), the partnership the two countries have forged over the past five years should be reinvigorated in coming months. Assistant Chief Cabinet Secretary Hiroyasu Ando told Ambassador Bhatia that there were no "serious" economic issues between the two countries. Bhatia agreed that the atmosphere had much improved and said that, other than beef, the challenges ahead lay more on capitalizing on opportunity rather than minimizing problems. Bhatia said that Japan was our closest and largest partner in the region and we should seek to "deepen and broaden" the relationship. The two countries should be thinking how to do this, he added, in the context of the Prime Minister's visit to the United States tentatively set for June.

13. (SBU) Deputy Foreign Minister Mitoji Yabunaka and Vice Trade Minister Kazumasa Kusaka agreed that the relationship had progressed smoothly over the past five years and both their ministries were looking to identify the best way forward. The departure from office of Prime Minister Koizumi by the end of the summer makes it difficult to launch any dramatic new initiatives at the moment. Both governments, according to Kusaka, should take advantage of the intervening months before the summit in June to study the architecture of the relationship over the past five years to assess what worked and what did not work. Although no public statement need be made, both sides should develop a common understanding on these points. At the summit, the leaders could instruct their staffs to develop proposals for changes in the architecture to be presented to the President and new Prime Minister at their first meeting. Yabunaka suggested that the two governments should hold talks in April or May to prepare for a Bush-Koizumi summit.

14. (SBU) A consistent theme conveyed to Ambassador Bhatia about reshaping the future dialogue was that the United States and Japan should work more closely together on IPR and energy issues. This was Ando's view at the Prime Minister's office, and Yabunaka and Kusaka echoed it in their separate meetings. On IPR, Ando and Kusaka said they hoped the United States would consider favorably Japan's idea of a non-proliferation agreement on counterfeit goods. Ando said the Prime Minister was "personally interested" in such a multilateral agreement. Ambassador Bhatia said there was no disagreement with the objective and we would continue to study the idea but we were concerned if the tactic could work with China.

15. (SBU) Bhatia also raised "secure trade," exploring how to use technology to protect transportation systems and reduce transaction costs, as another area for future

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cooperation. On this issue, Kusaka complained that the Department of Homeland Security (DHS) focuses perhaps too much on security without taking into account adequately commercial concerns. With better coordination, he said the United States could achieve the same security at less cost. Bhatia also raised with Assistant Cabinet Secretary Ando the hope that the two governments could make more progress in bilateral aviation talks. The current bilateral agreement is quite restrictive, and Bhatia expressed his hope that Japan might consider modest liberalization that would give air carriers of both nations greater service opportunities. Ando pledged to consider this but was otherwise noncommittal.

Regional Integration

16. (SBU) Ambassador Bhatia underscored the high priority that the United States attaches to boosting its economic integration in Asia. In describing the FTA negotiations Washington has launched with Korea and Malaysia, he said that the United States wants to "signal that we favor open markets in the region." The Japanese officials wished the United States luck in what is a very ambitious FTA agenda. Yabunaka noted that he was intimately involved in Japan's FTA talks with Malaysia. The climate there, he said, was very political. He predicted that autos would figure prominently. Kusaka underscored that the talks Washington has launched with Korea were "strategically" the most important. Bhatia noted that agreements varied from country to country, often with very different approaches -- from broad FTA to sector specific deals. On the prospect that the United States and Japan could eventually work on their own FTA, Yabunaka demurred: "I'm not sure it would be a plus for us."

Doha Round

¶7. (SBU) Bhatia underscored in all his meetings -- including at the Agriculture Ministry -- that the United States attaches enormous priority to reaching a successful conclusion to the Doha Round and it was time for all participants to "put their cards on the table." Hong Kong was not a failure, but the United States would like to see much more progress -- and is looking to Japan to show flexibility. The Administration is not counting on an extension to Trade Promotion Authority, so the deadlines are very real. Bhatia noted that there was no strong political consensus for trade agreements in the United States at the moment; trade negotiators must work hard to reach agreements that will enjoy broad bipartisan support. He noted the close calls already, including the one vote margin of victory for the Central American Free Trade Agreement (CAFTA) passed last summer.

¶8. (SBU) Kusaka and Yabunaka claimed Japan wants to have a successful trade round too. Kusaka said that when Japan's flexibility was needed, Japan was ready -- particularly in the non-agricultural, or NAMA, talks. Japan has the most WTO-friendly leadership ever, he argued, from the Prime Minister to the Agriculture and Trade ministers. PM Koizumi has the "courage" to make decisions, Agriculture Minister Nakagawa "understands" the issues, and Trade Minister Nikai has the political clout to make things happen. At the Agriculture Ministry, where the institution is not known to be as forward leaning on Doha as its minister, Vice Minister Hiroyuki Kinoshita conceded to Ambassador Bhatia that Doha was an important priority of the Prime Minister's. He added that the ministry must work to advance the talks, but noted -- somewhat elliptically -- the need to protect vulnerable sectors.

China WTO Cases

¶9. (SBU) In the context of the WTO discussion, Bhatia stressed Washington's hope that Japan would support the United States in two cases it plans to file against China in

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dispute settlement, on IPR and auto parts. The Deputy Trade Representative said that filing a WTO case ought not to disrupt bilateral relations and is indeed the sign of a mature relationship. Japan should not be uneasy about joining the United States in these cases. In China, there are reform elements and there are mercantilist elements, and the best way to support the reform process is to hold authorities there to their WTO obligations. Bhatia said the United States understands the importance of bringing strong cases for consideration in Geneva, and was preparing them.

¶10. (SBU) The GOJ is still studying the U.S. proposals and is far from a consensus on what role Japan should play. Ando agreed largely with Bhatia's description of the issue. We should no longer treat China as an apprentice in the WTO, he said, but as a full-fledged "responsible stakeholder." Kusaka, reflecting the ambivalence of Minister Nikai -- who is believed to be loath to confront Beijing -- was non-committal. He told Bhatia that Japan wanted to help the reformers in China too, but suggested there were other ways to do this. He described some programs that Japan has undertaken in China to educate mid-level bureaucrats in regional governments to understand their legal obligations better on IPR enforcement. And U.S. and Japanese corporations should be cooperating more in areas of mutual concern and should not hide behind governments. It was important that China hear a consistent message from its trading partners. But arm-twisting China, he asserted, could be counter-productive, particularly if it looks like Japan and the United States are "ganging up" on the Chinese.

Still Working on Consensus

¶11. (SBU) Yabunaka noted that Trade Minister Nikai was the biggest obstacle in the Japanese cabinet to taking a stand in the WTO against China on IPR and auto parts. Nikai was widely regarded as "very pro-China," he said. The Vice Foreign Minister reassured Bhatia that Japan was still examining the U.S. initiative "very carefully." He noted ruefully that Japanese commercial interests had certainly been affected by China's non-compliance over the years.
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